

Welcome to your CDP Forests Questionnaire 2019

F0. Introduction

F0.1

(F0.1) Give a general description of and introduction to your organization.

Who we are:

Philip Morris International Inc. (PMI) is a leading international tobacco company with a workforce of around 77400 people worldwide as of December 31, 2018.

In 2018, our products were sold in over 180 markets. We operated 44 production facilities globally. Our tobacco was sourced from over 350,000 farmers across 27 countries. With executive headquarters in New-York, US and publicly traded (NYSE: PM); PMI has its Operations Center in Lausanne, Switzerland.

What we do:

PMI manufactures and sells cigarettes, smoke-free products and associated electronic devices and accessories, and other nicotine-containing products in markets outside of the United States of America. Our portfolio comprises both international and local brands and is led by *Marlboro*, the world's best-selling international cigarette. In 2018, PMI net revenues amounted to USD 79.8 billion including excise taxes on products worth USD 50.2 billion. 2018 net revenues less excise tax amounted to 29.6 billion USD. 2018 Operating Income was USD 11.4 billion. PMI's 2018 total shipment volume for cigarette and heated tobacco units was 781.7 billion (740.3 billion cigarettes and 41.4 billion heated tobacco units).** The description above is a summary and is qualified in its entirety by reference to the full text of PMI's Annual Report on Form 10-K for the year ended 2018 filed with the U.S. Securities and Exchange Commission.

Our vision:

We are building our future on smoke-free products that are a much better consumer choice than continuing to smoke cigarettes. Our vision is that these products ultimately replace cigarettes to the benefit of adult smokers, society, our company and our shareholders.



Sustainability:

For PMI, sustainability means creating long-term value while minimizing the negative externalities associated with our products, operations and value chain. We are committed to address the impact on the communities and the environment around our value chain. While operating in a highly regulated environment, we strive to go beyond mere compliance to achieve a sustainable smoke-free future. In 2018, we conducted a new sustainability materiality analysis, enabling us to re-prioritize our sustainability focus. Emissions and energy, as well as biodiversity, deforestation and land use, emerged as tier 1 topics and are prioritized in our sustainability strategy.

The engagement beyond our own operations is key, as this is where the most significant sustainability impacts occur, especially when it comes to climate change and deforestation.

1. Our business has a significant, global supply chain organized by five main categories: We have a large agricultural supply chain, ranging from tobacco growers to producers of other agricultural products, such as clove, menthol and guar gum.
2. Another part of the supply chain consists of manufacturers of direct materials used to produce cigarettes and other tobacco products, such as cellulose acetate tow (for cigarette filters) and paper (both cigarette paper and for packaging materials).
3. Key to our business are also the manufacturers of machines for our cigarette and heated tobacco products factories, a highly specialized industry.
4. A recently added part of our supply chain consists of the manufacturers of electronic devices for heated tobacco products and e-cigarettes.
5. Finally, we work with thousands of suppliers of goods and services that are not specific to the tobacco business, but essential for any business, such as office equipment etc.

As a responsible business, we want to understand and continuously address potential sustainability issues in our global supply chain. We are working with business partners to proactively identify, manage, and reduce risks, and create shared value.

Remarks for this disclosure:

- In this report, "PMI," "we," "us" and "our" refer to Philip Morris International Inc. and its subsidiaries;
- In this report we reference information reported in the 2019 Proxy Statement dated March 21st 2019;
- Trademarks and service marks in this report are the registered property of, or licensed by, the subsidiaries of Philip Morris International Inc.;
- Reduced-Risk Products - "RRPs" - is the term PMI uses to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. PMI has a range of RRP's in various stages of development, scientific assessment and commercialization
- Materiality: In this report and in related communications, the terms "materiality," "material" and similar terms, when used in the context of economic, environmental, and social topics, are defined in the referenced sustainability standards, and are not meant to correspond to the concept of materiality under the U.S. securities laws and/or disclosures required by the U.S. Securities and Exchange Commission

All data provided refers to calendar year 2018 January 1st to December 31st

F0.2

(F0.2) State the start and end date of the year for which you are reporting data.

	Start Date	End Date
Reporting year	January 1, 2018	December 31, 2018

F0.3

(F0.3) Select the currency used for all financial information disclosed throughout your response.

USD

F0.4

(F0.4) Select the stage(s) of the value chain which best represents your organization's area of operation pertaining to forest risk commodities.

	Stage of the value chain
Timber	Manufacturing
Palm Oil	Not applicable
Cattle Products	Not applicable
Soy	Not applicable
Other - Rubber	Not applicable
Other	Not applicable

F0.5

(F0.5) Do you produce, use, or sell materials or products that contain any of the forest risk commodities?

	Produce/use/sell	Disclosing	Explanation if produce/use/sell but not disclosing
Timber	Yes	Yes	
Palm Oil	Yes	No	PMI sources roughly 5,000 metric tons of vegetal glycerin derived from palm oil. The amount of palm oil needed to produce this amount of vegetal glycerin is close to 0% of global palm oil production. Results from PMI's deforestation risk assessment within the value chain indicated that palm oil does not represent a material risk of deforestation for PMI due to the insignificant amount of palm oil that goes into PMI products.
Cattle Products	No		
Soy	No		
Other - Rubber	No		
Other	No		

F0.6

(F0.6) Are there any parts of your direct operations not included in your disclosure?

No

F0.7

(F0.7) Are there any parts of your supply chain not included in your disclosure?

Yes

F0.7a

(F0.7a) Identify the parts of your supply chain not included in your disclosure.

Exclusion	Description of exclusion	Potential for forests-related risk	Please explain
Source/ country/ geographical area	Approximately 5% of the board and paper sourced by PMI is sourced regionally. This has been excluded from the disclosure.	Potential for forests-related risk but not evaluated	<p>PMI sources the majority of board and paper globally; this means that the supply chain is centrally managed at corporate level. A small share of board and paper is sourced regionally with materials purchased from regional suppliers and the supply chain managed by the regional offices. This disclosure excludes board and paper sourced regionally.</p> <p>PMI disclosure includes five forms of timber: wood-based bioenergy, board, paper, cellulose acetate tow, and fine papers. The results of the deforestation assessment of PMI's value chain showed that approximately 5% of board and paper materials are sourced regionally. Additionally, a share of those are from recycled materials, therefore, regionally sourced pulp and paper are considered to pose a non-material deforestation risk to PMI, and their exclusion does not give an inaccurate or misleading picture of the company's deforestation risk management. No material exclusions have been made to the response, and the information provided through this questionnaire fairly presents the company's deforestation risk management.</p>

F1. Current state

F1.1

(F1.1) How does your organization produce, use, or sell your disclosed commodity(ies)?

Forest risk commodity

Timber

Activity

Using as input into manufacturing process for power generation

Form of commodity

Wood-based bioenergy

Source

Smallholders

Multiple contracted producers

Country/Region of origin

Argentina

Brazil

Indonesia

Malawi

Mozambique

Pakistan

Philippines

Poland

United Republic of Tanzania

% of procurement spend

<1%

Comment

The percentage is calculated based on the total procurement spend which includes direct and indirect materials and services.

Forest risk commodity

Timber

Activity

Distributing/packaging

Form of commodity

Paper

Primary packaging

Secondary packaging

Tertiary packaging

Source

Contracted suppliers (manufacturers)

Country/Region of origin

Australia

Austria

Brazil

Canada

Chile

China

Finland

France

Germany

Indonesia

New Zealand

Portugal

Spain

Sweden
United Kingdom of Great Britain and Northern Ireland
United States of America
Uruguay

% of procurement spend

6-10%

Comment

The percentage is calculated based on the total procurement spend which includes direct and indirect materials and services.

The country of origin listed is the country of origin of the wood. Both board and paper together account for 9% of total procurement spend which includes direct and indirect materials, and services.

Forest risk commodity

Timber

Activity

Using as input into product manufacturing

Form of commodity

Other, please specify

Fine papers and cellulose acetate tow

Source

Contracted suppliers (manufacturers)

Country/Region of origin

Brazil

Canada

China
Denmark
France
Japan
Norway
South Africa
Sweden
United States of America

% of procurement spend

1-5%

Comment

Fine papers are specialty papers that are used exclusively for tobacco products. The disclosure is organized using the same categories used by PMI to manage the supply chain of timber products. The same categories were used in the deforestation risk assessment of PMI's value chain, which has been the basis for setting priorities for further managing deforestation risks. Therefore, PMI has decided to use the same categories in its disclosure, separating fine papers. This share is based on the total procurement spend which includes direct and indirect materials, and services.

F1.1a

(F1.1a) Indicate from which State/region(s) and municipality(ies) your disclosed commodity(ies) originate.

Forest risk commodity

Timber

Country/Region of origin

Brazil

State/Region

Specify state/region

Bahia

Municipality

Specify municipality (1)

Cocos

Please explain

In 2018 PMI implemented a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers and to collect information regarding the location of the tobacco farmers and the source of firewood. PMI's monitoring framework is verified by a third party since 2018.

Forest risk commodity

Timber

Country/Region of origin

Brazil

State/Region

Specify state/region

Santa Catarina

Municipality

Specify municipality (1)

Chapecó

Specify municipality (2)

Figueira

Specify municipality (3)

Marechal Bormann e Guatambú

Please explain

In 2018 PMI implemented a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers and to collect information regarding the location of the tobacco farmers and the source of firewood. PMI's monitoring framework is verified by a third party since 2018.

Forest risk commodity

Timber

Country/Region of origin

Brazil

State/Region

Specify state/region

Rio Grande do Sul

Municipality

Specify municipality (1)

Barro Vermelho

Specify municipality (2)

Bosque

Specify municipality (3)

Cachoeira do Sul

Specify municipality (4)

Capane

Specify municipality (5)

Cordilheira

Specify municipality (6)

Ferreira

Specify municipality (7)

Tres Vendas

Specify municipality (8)

Botucarai

Specify municipality (9)

Candelária

Specify municipality (10)

Novo Cabrais

Specify municipality (11)

Restinga Seca e Jazidas

Specify municipality (12)

Paraiso do Sul

Please explain

In 2018 PMI implemented a harmonized and verifiable monitoring framework to allow monitoring of progress towards PMI's goals on sustainable leaf curing fuel. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers and to collect information regarding the location of the tobacco farmers and the source of firewood. PMI's monitoring framework is verified by a third party since 2018.

Forest risk commodity

Timber

Country/Region of origin

Indonesia

State/Region

Specify state/region

Lombok

Municipality

Specify municipality (1)

East Lombok

Specify municipality (2)

West Lombok

Specify municipality (3)

Central Lombok

Please explain

PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high level global deforestation assessment. A deforestation risk map was developed for Indonesia in 2016 and reviewed with additional information in 2018. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

Forest risk commodity

Timber

Country/Region of origin

Argentina

State/Region

Specify state/region

Salta

Municipality

Specify municipality (1)

All Departments

Please explain



PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high level global deforestation assessment. A deforestation risk map was developed for Argentina. As an input for the development of the deforestation risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

Forest risk commodity

Timber

Country/Region of origin

Argentina

State/Region

Specify state/region
Jujuy

Municipality

Specify municipality (1)
All departments

Please explain

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

Forest risk commodity

Timber



Country/Region of origin

Argentina

State/Region

Specify state/region
Tucuman

Municipality

Specify municipality (1)
All Departments

Please explain

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

Forest risk commodity

Timber

Country/Region of origin

Argentina

State/Region

Specify state/region
Chaco

Municipality

Specify municipality (1)
Almirante Brown

Specify municipality (2)
General Guemes

Please explain

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

Forest risk commodity

Timber

Country/Region of origin

Argentina

State/Region

Specify state/region
Catamarca

Municipality

Specify municipality (1)
Antofagasta de la Sierra
Specify municipality (2)
Tinogasta
Specify municipality (3)
Poman
Specify municipality (4)
Belen
Specify municipality (5)

Santa María
Specify municipality (6)
Andalgala
Specify municipality (7)
Ambato
Specify municipality (8)
El Alto Viejo
Specify municipality (9)
Santa Rosa

Please explain

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from

Forest risk commodity

Timber

Country/Region of origin

Argentina

State/Region

Specify state/region
Santiago del Estereo

Municipality

Specify municipality (1)
Copo

Specify municipality (2)

Alberdi

Specify municipality (3)

Figueroa

Specify municipality (4)

Banda

Specify municipality (5)

Jimenez

Specify municipality (6)

Pellegrin

Specify municipality (7)

Rio Hondo

Specify municipality (8)

Guasayan

Specify municipality (9)

Capital

Specify municipality (10)

Robles

Specify municipality (11)

Salpica

Specify municipality (12)

San Martin

Please explain

PMI has developed forest risk maps for countries using firewood to cure tobacco including Argentina. As an input for the development of the forest risk map, PMI requires tobacco leaf suppliers to provide the exact location of their contracted farmers. Additionally, PMI has also identified the distance that tobacco farmers travel to source firewood. Therefore, PMI is able to identify the municipality where the wood-based bioenergy is sourced from.

Forest risk commodity

Timber

Country/Region of origin

Brazil

State/Region

Specify state/region

Mato Grosso do Sul

Municipality

Specify municipality (1)

Tres Lagoas

Please explain

Only one of PMI's suppliers is sourcing board from Brazil. This supplier accounts for less than 4% of all board sourced by PMI. In 2018 PMI continued its efforts to increase visibility of pulp and paper products, and gained improved traceability to the municipality level.

Forest risk commodity

Timber

Country/Region of origin

Indonesia

State/Region

Don't know

Municipality

Don't know

Please explain



PMI currently does not have visibility of its sourcing of board beyond the country level in Indonesia. A deforestation risk assessment of the value chain was developed in 2017, and currently PMI is planning the next steps to improve traceability beyond the country level. Only one board supplier sources part of its products from Indonesia, this supplier accounts for less than 9% of board sourced by PMI. This suppliers sources board products from Canada, where deforestation risks are significantly lower.

Forest risk commodity

Timber

Country/Region of origin

Brazil

State/Region

Specify state/region

Espírito Santo

Municipality

Specify municipality (1)

Aracruz

Please explain

Only three of PMI's suppliers are sourcing fine papers from Brazil. These suppliers account for about 4% of all fine paper sourced by PMI. In 2018 PMI continued its efforts to increase visibility of pulp and paper products, and gained improved traceability to the municipality level.

Forest risk commodity

Timber

Country/Region of origin

Indonesia



State/Region

Specify state/region

Riau

Municipality

Specify municipality (1)

Siak

Please explain

Only one of PMI's suppliers is sourcing fine papers from Indonesia. This supplier accounts for less than 23% of all fine paper sourced by PMI. In 2018 PMI continued its efforts to increase visibility of pulp and paper products, and gained improved traceability to the municipality level. This supplier also sources fine paper products from Chile.

F1.2

(F1.2) Indicate the percentage of your organization's revenue that was dependent on your disclosed forest risk commodity(ies) in the reporting year.

	% of revenue dependent on commodity	Comment
Timber	100%	100% of PMI heated tobacco units and cigarettes sales require timber derivative products. Additionally, PMI uses board and paper for packaging of the majority of PMI's products.

F1.3

(F1.3) Do you own or manage land used for the production of your disclosed commodity(ies)?

Forest risk commodity

Timber



Own and/or manage land?

Don't own or manage land

Type of control

Description of type of control

Country/Region

Land type

Size (Hectares)

Do you have a system in place to monitor forests-related risks?

Type of monitoring system

Description of monitoring system

Recent infraction(s)

Explanation of infraction

F1.4

(F1.4) For your disclosed commodity(ies), indicate if you collect data regarding your own compliance and/or the compliance of your suppliers with the Brazilian Forest Code.

Timber

Do you collect data regarding compliance with the Brazilian Forest Code?

Yes, from suppliers

Please explain

PMI purchases tobacco from tobacco leaf suppliers which source from contract farmers who grow tobacco on their own land and who use firewood to cure the Flue Cured Virginia (FCV) tobacco they produce and sell based on contract. Tobacco leaf suppliers have field technicians who perform visits to farmers a few times per year. During these site visits, field technicians ask questions to farmers, make observations and use questionnaires and surveys as a methodology to assess firewood sources used by farmers to cure the FCV tobacco. Field technicians record their finding electronically with support of tablets and all the data captured are stored in a dedicated system. These surveys and questionnaires include elements to identify potential changes in forest areas and they are aligned with PMI's Sustainable Tobacco Program, as well as with the Brazilian Forest Code. Additionally, the field technicians assess the presence of buffer zones implemented on farm as well as other APP (Permanent Protected Areas) in accordance with the Brazilian Forest Code. At the end of the year a report with the number of non-compliant cases is compiled and shared with PMI. The identification by the field technicians of a non-compliant case with the Brazilian Forest Code can lead to contract termination.

F1.4b

(F1.4b) For your disclosed commodity(ies), indicate which Key Performance Indicators (KPIs) you use to measure the compliance of your suppliers with the Brazilian Forest Code and their performance against these indicator(s).

Forest risk commodity

Timber

KPIs and performance

- % of suppliers on the Rural Environmental Registry (CAR) database
- % of suppliers with Legal Reserve (RL) and/or Permanent Protected Area (APP) deficit
- % of suppliers with signed Terms of Commitment of the Environmental Regularization Program (PRA)
- % of suppliers with no gross deforestation after July 2008

Number of suppliers

3

Please explain

PMI has a Monitoring Framework for Sustainable Curing Fuel which is used annually by the company to track the origin of all firewood used by our tobacco suppliers. This monitoring framework is aligned with PMI's forestry policy and targets, including zero net deforestation of natural forests in the tobacco supply chain, as well as with the Brazilian Forest Code and is verified by a third party in 2018. PMI's monitoring framework relies on the application of surveys and questionnaires by field technicians as a methodology to identify, measure and monitor suppliers with no gross deforestation. The PMI's monitoring framework defines a KPI related to cut-off date. The cut-off date defined in the PMI's monitoring framework is 2006, therefore PMI is able to track any changes after 22nd July 2008 cut-off date stated in the Brazilian Forest Code. Buffer zones implemented on farms as well as other Permanent Protected Areas (APP) are also assessed by field technicians as part of the monitoring framework requirements and procedures. At the end of the year a report with the number of non-compliant cases is compiled and shared with PMI. A non-compliant case, with the Brazilian Forest Code, can lead to contract termination. To complement the monitoring framework, PMI also uses the Rural Environmental Registry (CAR), Legal Reserve (RL) and Permanent Protected Areas (APP) data as KPIs. On average, 71% of tier 2 suppliers (farmers) are listed in the Rural Environmental Registry (CAR) database, while 66% have a Legal Reserve (RL) and/or other Permanent Protected Areas (APP).

Forest risk commodity

Timber

KPIs and performance

- Other, please specify
 - Buffer zones on farms and permanent area



Number of suppliers

3

Please explain

PMI has a Monitoring Framework for Sustainable Curing Fuel which is used annually by the company to track the origin of all firewood used by our tobacco suppliers. This monitoring framework is aligned with PMI's forestry policy and targets, including zero net deforestation of natural forests in the tobacco supply chain, as well as with the Brazilian Forest Code and is verified by a third party in 2018. PMI's monitoring framework relies on the application of surveys and questionnaires by field technicians as a methodology to identify, measure and monitor suppliers with no gross deforestation. The PMI's monitoring framework defines a KPI related to cut-off date. The cut-off date defined in the PMI's monitoring framework is 2006, therefore PMI is able to track any changes after 22nd July 2008 cut-off date stated in the Brazilian Forest Code. Buffer zones implemented on farms as well as other Permanent Protected Areas (APP) are also assessed by field technicians as part of the monitoring framework requirements and procedures. At the end of the year a report with the number of non-compliant cases is compiled and shared with PMI. A non-compliant case, with the Brazilian Forest Code, can lead to contract termination. To complement the monitoring framework, PMI also uses the Rural Environmental Registry (CAR), Legal Reserve (RL) and Permanent Protected Areas (APP) data as KPIs. On average, 71% of tier 2 suppliers (farmers) are listed in the Rural Environmental Registry (CAR) database, while 66% have a Legal Reserve (RL) and/or Permanent Protected Areas (APP).

F1.5

(F1.5) Does your organization collect production and/or consumption data for your disclosed commodity(ies)?

	Data availability/Disclosure
Timber	Consumption data available, disclosing

F1.5a

(F1.5a) Disclose your production and/or consumption data.

Forest risk commodity

Timber

Data type

Consumption data

Volume

1,161,868

Metric

Metric tons

Data coverage

Full commodity production/consumption

Please explain

This is an estimated figure that considers all the different forms of timber-related products, which are not originally purchased in the same units.

F1.6

(F1.6) Have you identified sufficient sources of sustainable materials to meet your current operational needs? If yes, what are you doing to ensure the security/continuity of this supply?

Timber

Sustainable source identified

Yes

Primary action to ensure supply

Engaging in capacity building activities in the value chain

Please explain

To secure access to enough supply of sustainable firewood, PMI has adopted a Global Roadmap which includes the following three global targets: 1. No Old Growth Forest cut 2. 100% Renewable sources/Self-sufficient firewood 3. Full traceability The global roadmap for sustainable

firewood provides a timeline for the achievement of the three above targets, the suggested timeline for its achievement is until 2020. Biodiversity management and Social and economic development are aspirational sustainability targets to be achieved in the long term beyond 2020. PMI is currently implementing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as Monitoring Framework) to monitor the progress towards PMI's global targets. The monitoring framework is composed of four principles, and Principle 2 "Be Sustainable" focuses on sustainability and traceability of the fuel source and is verified by a third party since 2018. The purpose is to ensure that all origins use fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). Additionally, no coal should be used as a fuel to cure tobacco by 2020. PMI is supporting and engaging in capacity building activities with tobacco leaf suppliers to ensure they are able to comply with the Monitoring Framework and ensure a sustainable supply of raw materials by 2020 and beyond. We consider that the implementation of the Monitoring Framework is proving effective and we estimate that above 75% of the curing fuel is sustainable and traceable since 2018.

F1.7

(F1.7) Has your organization experienced any detrimental forests-related impacts?

Yes

F1.7a

(F1.7a) Describe the forests-related detrimental impacts experienced by your organization, your response, and the total financial impact.

Forest risk commodity

Timber

Impact driver type

Reputational and markets

Primary impact driver

Uncertainty about product origin and/or legality

Primary impact

Brand damage

Description of impact

During the last years, the tobacco industry has been associated with deforestation, which could have a negative impact on PMI's brand. In 2018, attention from public and international organizations on the environmental impacts from the tobacco industry continued to increase. Land use change and its associated impacts on biodiversity and ecosystem services were particularly relevant. Even though PMI has significantly increased traceability of its timber-based materials, there is a share that remains uncertain. The impacts experienced so far have not been substantive according to the company's definition. However PMI continues to monitor them as they could potentially become more substantial.

Primary response

Greater traceability of forest-risk commodities

Total financial impact

3,500,000

Description of response

PMI is responding to this issue by involving multiple stakeholders within and beyond the company. Within the company, PMI has involved its senior management and sustainability teams for the creation of policies, procedures and targets to achieve zero deforestation supply chains. As part of this effort, PMI set a target to source 100% traceable and sustainable firewood that is also verified by a third party by 2020. Within PMI's supply chains, the company is working with tobacco leaf suppliers through the application of the Monitoring Framework for Sustainable Curing Fuels that all tobacco leaf suppliers should comply with. Outcomes to date include the development of PMI's forests policy and traceability commitment (which have led to the sourcing of more than 75% sustainable fuel in 2018), the development of a deforestation risk assessment, and country specific programs to tackle deforestation. The indicated financial impact (\$3,500,000) includes the costs associated to the annual budget to execute our Sustainable Tobacco Program and initiatives to also address deforestation issues in our tobacco supply chain. The annual budget is allocated to initiatives to catalyze the adoption of improved and innovative practices by the farmers in our supply chain. It also includes the costs to implement and verify the Monitoring Framework.

Forest risk commodity

Timber

Impact driver type

Physical

Primary impact driver

Increased severity of extreme weather events

Primary impact

Supply chain disruption

Description of impact

More than half of the tobacco crops supplied to PMI globally are rain-fed and do not require supplementary irrigation other than at the seedling stage. Water is nevertheless an essential resource for growing tobacco and for the farmer household. The quantity, quality, and timing of water availability through rainfall and irrigation all have an impact on the successful growth of the crop. In 2018, our tobacco farmers in the US, Indonesia, China and Thailand experienced crop losses due to an increased severity of weather events. These included hurricanes, heavy rains and extended droughts, which damaged around 524,846 hectares of agricultural land. Farmers in these countries experienced losses of about 165 thousand tons of tobacco. Even though this impact did not affect PMI directly, it is considered substantial as the amount of tobacco that was lost is beyond the company's threshold of substantive change.

Primary response

Engagement with suppliers

Total financial impact

500,000,000

Description of response

Even though this impact did not affect PMI directly, it is considered substantive as it is impacting farmers in our supply chain. PMI is responding to this issue by involving multiple stakeholders within and beyond the company. Within the company, PMI has involved its management board and sustainability teams for the creation of policies, procedures and targets to promote the adoption of sustainable agricultural practices which enable farmers to adapt to climate change. Beyond the company, PMI engages all its agricultural suppliers through its Good Agricultural

Practices (GAP) program, which promotes best agricultural practices. Through data gathered by the GAP program, and PMI's water risk assessment, the company identifies priority areas and suppliers to work with. Outcomes to date include the development of 9 local water risk assessments in priority areas in 7 countries, as well as collective work with tobacco suppliers and farmers to improve watershed management and develop drought-tolerant and flood-tolerant seed varieties, and access to WASH services for farmers. The indicated financial impact includes the financial losses experienced by farmers in the U.S., China, Indonesia and Thailand which were reported to PMI as hectares of land damaged and tons of tobacco losses. Tons of tobacco losses were reported per type of tobacco (Virginia, Burley or Oriental). PMI estimated cost of the reported losses based on the average market price for the specific crop in 2018.

F2. Procedures

F2.1

(F2.1) Does your organization undertake a forests-related risk assessment?

Yes, forests-related risks are assessed

F2.1a

(F2.1a) Select the options that best describe your procedures for identifying and assessing forests-related risks.

Timber

Value chain stage

Direct operations

Supply chain

Coverage

Full

Risk assessment procedure

Assessed as part of other company-wide risk assessment system

Frequency of assessment

Annually

How far into the future are risks considered?

> 6 years

Tools and methods used to identify and assess risks

Internal company methods

External consultants

National specific tools and databases

Other, please specify

Big Chain Tool

Please explain

External consultants were hired to develop PMI's deforestation risk assessment. The scope of the assessment included PMI's entire value chain, focusing on global materials sourced for manufacturing purposes, that could be linked to agriculture or mining (main drivers of deforestation). The consultants developed a materiality assessment to prioritize materials through two indicators: global deforestation impact of the material, and PMI's impact, approximated by PMI's market share. The analysis included national specific data on land use cover, deforestation trends, emissions from deforestation, availability of certified materials, corruption, and other data. From this prioritization exercise, targeted risk assessments were implemented for tobacco leaf and priority pulp and paper products. Additionally, PMI hired external consultants to assess the forests risks associated with the use of biomass by farmers and in PMI's factories. The consultants developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified. Internal company methods were used to assess risks associated with the use of timber for barn construction. To assess the deforestation impact of land use change, PMI used the BigChain Tool (BCT). The BCT was developed to execute a rapid screening of deforestation linked to commodity production and identify risks on a geographic basis. The BCT assessed the impact of land use change associated with the expansion of tobacco farming for all countries where PMI sources tobacco. The assessment was developed at a regional level, the results showed that only five countries had deforestation that could be associated with tobacco farming, in all cases, the impact was less than 1 ha for the period 2001 to 2014, therefore, deforestation resulting from land use change associated with tobacco farming is considered a non-material risk for PMI. These methods were selected as PMI considered that only through a combination of methods PMI could assess all the risks associated to its different commodities, processes and locations. These have been effective at identifying all the relevant risks for PMI's operations, which has enabled

the company to engage key suppliers and develop strategies to mitigate risks from those materials that could represent the highest risks to forests.

F2.1b

(F2.1b) Which of the following issues are considered in your organization's forests-related risk assessment(s)?

Availability of forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

This issue is important because the availability of timber is key to be used as fuel for tobacco curing, and also to produce products such as fine papers and cellulose acetate tow for the manufacture of cigarettes. Therefore, assessing the availability of timber is important to ensure PMI's future ability to manufacture its main products. Decreased availability of timber would impact the entire value chain. To assess this issue, PMI uses the Monitoring Framework for Sustainable Leaf Curing Fuel (internal company methods) as the main tool. As part of the assessment, tobacco leaf suppliers must show that their contracted farmers have identified fuel sources at least until 2020. They can do so by providing proof of long term contracts with fuel vendors or by presenting a study. The assessment also considers existing mitigation actions implemented by tobacco leaf suppliers, for example, both tobacco leaf suppliers and farmers are managing their own woodlots to ensure the availability of the resource in the future, in some areas in Africa, assisted natural regeneration practices are implemented. PMI then assesses the share of tobacco leaf suppliers and farmers that comply with the Monitoring Framework requirements. Results from the assessment are used to inform PMI's sustainability and sourcing strategies, and to identify key suppliers who may require further technical assistance and capacity building.

Quality of forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because the type of wood and tree species used as fuel for tobacco curing can impact the curing efficiency and therefore the amount of fuel needed to cure tobacco. As tobacco is the main ingredient in the manufacture of PMI's products, this issue can

impact the entire value chain. To assess this issue, PMI uses the Monitoring Framework for Sustainable Leaf Curing Fuel (internal company methods) as the main tool. As part of this assessment, all tobacco leaf suppliers must identify the species used for firewood, guarantee that their origin is sustainable and report on their use for tobacco curing. Results from the assessment are used to develop initiatives that encourage farmers to use more efficient types of fuel, for example, technical assistance initiatives where farmers learn how to manage biomass fuels to optimize their performance, and make the tobacco curing process less consuming.

Impact of activity on the status of ecosystems and habitats

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because its supply chain has impact on ecosystems and habitats through deforestation activities, this could lead to a negative impact on PMI's brand reputation which could affect PMI's revenue and PMI's business. PMI assesses this issue through a deforestation risk assessment of its entire value chain, involving external consultants and national specific databases. It found that the use of firewood to cure tobacco and the sourcing of pulp and paper products pose material deforestation risks. The risk assessment analyzed all the pulp and paper products suppliers and countries of origin, as well as all the countries where firewood is used for tobacco curing. Additionally, PMI developed deforestation risk maps for countries where farmers use firewood for tobacco curing and where medium to high deforestation risks were identified in the initial high level global deforestation assessment (Other, BigChain Tool). Updates of the forest risk maps for relevant countries were done in 2017 and 2018. The forest risk maps analyze the impact of tobacco curing on forests surrounding tobacco farmers. Results from this assessment are used to inform PMI's sustainability strategy and to develop additional initiatives to mitigate the identified risks. For example, the Monitoring Framework was developed as a result of the identification of global deforestation risks associated with tobacco curing. The results of the forest risk maps were also shared with tobacco leaf suppliers to develop forest risk mitigation plans focusing on farmers who are in proximity to forests at risk of deforestation.

Regulation

Relevance & inclusion

Relevant, always included

Please explain

As a global company, PMI has to comply with all regulations in more than the 180 countries where it sells its products. As timber related products are key for the manufacture of PMI products, any change to the regulatory framework of timber and the use of forest resources might impact PMI's entire value chain. PMI assesses this issue as part of the company's deforestation risk assessment using internal company methods, external consultants and national databases. PMI complies with all applicable laws and strives to go beyond compliance, particularly in those countries where national standards are lower than PMI's ones. The analysis considered regulations in countries where PMI sources pulp and paper products, focusing on identifying countries where regulations might not be strong enough to ensure that the products are being sustainably sourced. Results from the assessment are used to identify pulp and paper suppliers who operate in higher risk countries, based on the assessment methodology, and implement corrective actions. For tobacco suppliers, PMI uses the Monitoring Framework for Sustainable Curing Fuels, which considers compliance with local regulations such as the need for permits, registrations etc. at the supplier level. Additionally, PMI continuously monitors the legislative landscape to anticipate any change. The results are used to plan strategies of action with the suppliers.

Climate change

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because our products heavily rely on the production of high quality agricultural commodities, which can be impacted by climate change. As PMI works directly with suppliers and farmers, it acknowledges that it has a key role to play in tackling climate change. For this reason, PMI committed to decrease its carbon footprint by 30% across our entire value chain by 2020 vs. a 2010 baseline. As tobacco accounts for around 40% of PMI's carbon footprint, PMI set goals and developed strategic initiatives to reduce GHG emissions related to tobacco growing including the one generated by the fuels used for the curing process. To assess this issue, PMI uses a combination of internal company methods, national databases and external consultants. At the corporate level, PMI uses its GHG emission inventory to track emission reductions; deviation from our targets are flagged as potential risks. At the supplier level, PMI uses the Monitoring Framework for Sustainable Leaf Curing Fuel which allows the identification of emissions from tobacco flue-curing at the supplier level. Additionally, PMI's deforestation risk assessment focuses on potential GHG emissions from deforestation caused by tobacco production. The results of these assessments are used to inform PMI's sustainability and business strategies, particularly to identify key suppliers or geographies where additional programs, projects or initiatives are required to continue advancing towards PMI's carbon emission reduction goal.

Impact on water security

Relevance & inclusion

Relevant, always included

Please explain

PMI assesses this issue by annually looking at its impacts on water security both from direct operations and supply chain. For this assessment, PMI uses a combination of internal company methods, national databases, external consultants and other data and tools including WRI Aqueduct, Life Cycle Assessment, Alliance for Water Stewardship Standard, and others. The assessment focuses on the water impacts arising from tobacco production and includes contextual issues such as water availability, water quality, implications of water on key commodities, status of ecosystems and habitats and other similar issues. Results from this assessment are used to identify geographies, facilities and suppliers that are exposed to water risks. This information is then used to develop projects or programs to mitigate risks and inform the company's sourcing strategy.

Tariffs or price increases

Relevance & inclusion

Relevant, always included

Please explain

This issue is important for PMI because tariff or price increase can have a negative impact on the profitability of the business or alter the demand for our products, affecting the entire value chain. This issue is assessed through the company-wide risk assessment and is part of procurement and supplier management. PMI uses internal company methods to identify any potential changes in tariffs or prices, as part of a broader strategy to gain visibility within the supply chain. As part of the assessment, PMI monitors total volumes, order controls, anti-diversion plans and tracking and tracing. Assessment results are used to identify priority areas and suppliers that need to be engaged to mitigate risks arising from tariffs or price increases and inform the company's procurement strategies. To further mitigate risks, PMI manages inventories and stocks for all direct materials to be able to mitigate this potential impact, additionally, PMI has a diversified strategy where sourcing is spread across different areas. PMI also aims to develop long term relationships with suppliers and to have a strong and stable supplier base.

Loss of markets

Relevance & inclusion

Relevant, always included

Please explain

This is an important issue for PMI because the inability to supply a market due to unavailability of materials and/or products would affect PMI's entire value chain and therefore would have a negative impact on PMI's profits. This issue is assessed through the company-wide risk assessment and it is part of procurement and supplier management. PMI uses internal company methods to identify any potential loss of markets, as part of a broader strategy to secure a sustainable supply chain. As part of the assessment, PMI monitors total volumes of products, order controls, anti-diversion plans and tracking and tracing. PMI uses results from this assessment to identify the potential loss of markets and inform the company's procurement strategies. To further mitigate risks, PMI manages inventories and stocks for all direct materials to be able to mitigate this potential impact, additionally, PMI has a diversified strategy where sourcing is spread across different areas. PMI also aims to develop long term relationships with suppliers and to have a strong and stable supplier base.

Brand damage related to forest risk commodities

Relevance & inclusion

Relevant, always included

Please explain

This is an important issue for PMI because the risk of brand damage due to PMI sourcing of materials associated with deforestation may potentially affect sales and hence affect revenue and profits, impacting the entire value chain. This issue is assessed indirectly through PMI's deforestation risk assessment, which uses internal company methods, external consultants, and national databases. These methodologies are used to identify potential risks associated with deforestation within PMI's direct operations and supply chain. If a risk is identified, PMI would assess if it has the potential to damage the brand. PMI uses results from its deforestation risk assessment to inform the company's business, sourcing and sustainability strategies, in order to prevent brand damage. Examples of these adjustments include the development of the Monitoring Framework for Sustainable Curing Fuels, the engagement with suppliers through our PMI's Responsible Sourcing Principles (RSP), as well as specific projects with key suppliers.

Corruption

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because it can affect the operations of PMI in certain countries where corruption could be an issue. PMI assesses this issue through a deforestation risk assessment of its entire value chain, involving external consultants and national specific databases. The assessment focuses on the origin of PMI's pulp and paper products, and uses country specific data by the Transparency International Corruption Index as one of the variables to identify countries with a high risk profile. Results from this assessment are used to inform PMI's sourcing strategy and to identify those suppliers that require additional engagement to guarantee that there is no corruption associated to their products.

Social impacts

Relevance & inclusion

Relevant, always included

Please explain

This issue is important to PMI because continuously minimizing social impact within its operations and beyond is essential to PMI's long-term success. For example, PMI is aware that farming communities can be affected by environmental issues such as deforestation, which can in turn affect their capacity to grow tobacco and other crops, and therefore their livelihood. For this reason, PMI supports smallholder farmers and their communities to improve their environmental, social and economic conditions. PMI assesses this issue through a deforestation risk assessment of its entire value chain, involving external consultants and national specific databases PMI considers social impacts such as the presence of mechanisms within the forestry sector to guarantee indigenous populations' rights, in countries where pulp and paper products are sourced. Results from the country assessment are used to prioritize countries and pulp and paper suppliers for further engagement. PMI is exploring how to further engage and collaborate with pulp and paper suppliers sourcing from countries that were ranked as high risk.

Other, please specify

Relevance & inclusion

Please explain

F2.1c

(F2.1c) Which of the following stakeholders are considered in your organization's forests-related risk assessments?

Customers

Relevance & inclusion

Relevant, always included

Please explain

Customers are included because they are increasingly expecting brands to manage their environmental impacts, specially related to deforestation and climate change. Failure to respond to PMI's customers' concerns can negatively impact its business (for example a potential impact on sales). PMI engages with customers and civil society through a series of methods including ongoing dialogue, corporate communications, formal gatherings, attendance and contribution to forums and events, reports and consultations. Additionally, PMI considers results and trends arising from consumer surveys regarding sustainability.

Employees

Relevance & inclusion

Relevant, always included

Please explain

Employees are included because they are the ones driving the implementation of PMI's goals and targets, they are also the ones managing suppliers. In the development of the deforestation risk assessment of PMI's entire value chain, all relevant employees were directly engaged throughout the development of the assessment. Engagement was done through meetings, electronic communication to receive information from relevant employees including feedback on the results of the assessment. Employees included members of various teams such as procurement, environment, health and safety, corporate affairs, agricultural programs among others. For example, employees of corporate affairs focus on risks related to reputation and brand damage, whereas employees from the procurement team focus on ensuring supply of materials and on maintaining strong supplier relationships. PMI uses additional methods to engage employees in forests issues including training, ongoing dialogue, consultation, internal communication channels, surveys and questionnaires, forums, events, reports and publications amongst others.

An example of this was the engagement for the sustainability materiality assessment, where employees' feedback was gathered. This feedback will be incorporated into PMI's 2025 sustainability strategy.

Investors

Relevance & inclusion

Relevant, always included

Please explain

Investors are included because they are one of the most important stakeholders, and they have to be informed of the performance of the company in all aspects. PMI engages with Investors through various methods including ongoing dialogue on forests and sustainability issues, corporate communications and reports such as the Sustainability Report, investor calls and ad-hoc requests public disclosures such as CDP, ESG ratings such as the DJSI, attendance and contributions to forums and events. An example is the engagement in the results of the activities related to sustainability matters including deforestation related issues, which are shared with investors. Another example was the engagement in the sustainability materiality assessment, where investors' feedback was gathered. This feedback will be incorporated into PMI's 2025 sustainability strategy.

Local communities

Relevance & inclusion

Relevant, always included

Please explain

Local communities where we operate are included because they are crucial to PMI's long term success. They are engaged directly and through PMI's tobacco leaf suppliers, through different methodologies including ongoing dialogue, surveys and questionnaires, training, formal gatherings, forums and events, memberships and partnerships, consultation processes and others. An example is the development of the forest risk maps for which local farmers and other stakeholders are interviewed. In 2018 the global forest risk map was updated. In 2017 updated forest risk maps were developed for Pakistan, Philippines, Malawi, Mozambique and Argentina. Maps were developed for Tanzania in 2016; and for Indonesia in 2016 and refreshed in 2018. For the development of the Argentina map, for example, a local NGO and farmers were interviewed. Additionally, as part of the Monitoring Framework for Sustainable Curing Fuels, all PMI's tobacco leaf suppliers must have a stakeholder engagement plan where local communities are included when relevant.

NGOs

Relevance & inclusion

Relevant, always included

Please explain

NGOs are included because they can often provide support and technical expertise to manage PMI's deforestation risks. PMI engages with NGOs in various ways, depending on the location of the organization as well as their area of expertise. Engagement methods include ongoing dialogue, consultations and other collaborations on a project basis. An example is PMI's deforestation risk assessment, which uses information developed by NGOs to assess both pulp and paper suppliers and countries from where PMI sources pulp and paper products (for example reports of unsustainable practices, transparency rankings among others). Another example is PMI's Monitoring Framework for Sustainable Curing Fuels. As part of this framework, NGOs sometimes work directly with PMI's tobacco leaf suppliers to help them implement initiatives to reach the targets on sustainability and traceability. PMI also engages with NGOs directly through interviews for the development of forest risk maps and similar products. In 2017 maps were developed for Pakistan, Philippines, Malawi, Mozambique and Argentina. Maps were developed for Tanzania in 2016; and for Indonesia in 2016 and refreshed in 2018. These maps are updated, on average, every two to three years as it is not expected that the conditions change year to year. In 2018 PMI engaged with PEFC in China to develop a country risk profile. The objective is to understand in detail the forest related risks in the country and how these might impact PMI's forest related risks in China. Another example was the engagement in the sustainability materiality assessment, where NGO's feedback was gathered. This feedback will be incorporated into PMI's 2025 sustainability strategy.

Other forest risk commodity users/producers at a local level

Relevance & inclusion

Relevant, always included

Please explain

Other stakeholders are included because deforestation impacts at the regional or local level cannot be effectively addressed by a single company. Deforestation has several drivers and it is important for PMI to understand and involve other users to address this problem, as well as identify the extent to which every stakeholder can contribute. PMI engages with these stakeholders through a combination of methods, including ongoing dialogue, training, forums and events and other as necessary. PMI considers other users as part of its deforestation risk assessment,

particularly those involved in the company's pulp and paper supply chain. An example is PMI's activity in Pakistan where the company is engaging with firewood vendors who not only supply tobacco farmers with firewood for tobacco curing but also for other uses.

Regulators

Relevance & inclusion

Relevant, always included

Please explain

Regulators are included because they define the rules under which PMI operates. There is a risk that regulations changes might affect PMI's operations and its supply chain. Regulators were included as stakeholders to be engaged as part of the Monitoring Framework for Sustainable Leaf Curing Fuels. All PMI's tobacco leaf suppliers must have a stakeholder engagement plan where relevant regulators are identified, engaged based on specific topics and pertinent information are exchanged. PMI engages regulators through various methods including ongoing dialogue where appropriate and per local regulations, training, formal gatherings, attendance and contribution to forums and events. An example is suppliers being actively engaged, in the Philippines, with the Department of Environment and Natural Resources (DENR) along with the National Tobacco Association through meetings and workshops. As part of this engagement, supplier and the DENR are sharing information to understand the availability of firewood in the regions and to manage the risk of deforestation through ensuring that farmers have access to legal sources of firewood.

Suppliers

Relevance & inclusion

Relevant, always included

Please explain

Tobacco leaf suppliers are included because they are the ones who contract tobacco farmers and ensure PMI targets and standards are met. If tobacco leaf suppliers are not considered, there is a risk that PMI cannot achieve its targets. Suppliers are engaged through various methods and projects including ongoing dialogue, surveys and questionnaires, training, corporate communications, consultations, contractual relationships, and other ad hoc activities. For example, PMI works closely with tobacco leaf suppliers in the development of supplier-specific forest risk maps. Tobacco leaf suppliers provide relevant information related to their operations as well as feedback on forest risk map once developed. The final forest risk map is the result of a collaborative effort. Additionally, PMI is working to strengthen the engagement of suppliers



of pulp and paper products to validate the findings of the deforestation risk assessment related to such products. We engage with our suppliers to communicate our expectations, increase our understanding of their current practices and collaborate to set targets for the materials they supply. Suppliers are evaluated through a due diligence and self-assessment process that will allow us to identify risk exposure and areas where our support is needed. We will develop actions plan with relevant suppliers to track and measure performance improvements. We are monitoring and engaging with suppliers sourcing from high-risk countries such as Indonesia and Brazil. Another example was the engagement for the sustainability materiality assessment, where business partners' feedback was gathered. This feedback will be incorporated into PMI's 2025 sustainability strategy.

Other stakeholders, please specify

Relevance & inclusion

Please explain

F3. Risks and opportunities

F3.1

(F3.1) Have you identified any inherent forests-related risks with the potential to have a substantive financial or strategic impact on your business?

	Risk identified?
Timber	Yes

F3.1a

(F3.1a) How does your organization define substantive impact on your business?

PMI evaluates a “substantive impact” (e.g., financial or strategic impact) based on a variety of factors including but not limited to the potential impact on financial performance as well as other factors that may affect PMI’s efforts towards a smoke-free future and ultimately replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, society, the company and its shareholders.

As part of the Company’s annual Integrated Risk Assessment (IRA) process we have conducted a Climate Change Risk Assessment to evaluate and understand the impact of climate change on PMI business and a Deforestation Global Risk Assessment. When assessing risks related to Climate Change and Deforestation we consider long term horizons (2030 and 2040 scenarios), multiple climate related indicators and impact drivers including but not limited to climate change events that may:

- influence or impact our operations (e.g.: raw material sourcing, factories, finish goods distribution);
- affect a large number of areas where we source tobacco and/or other raw materials, impacting the continuity of supply for years, and consequently driving related cost up;
- trigger a competition in resources demand, natural disaster, water scarcity, change in weather pattern and extreme weather events impacting the availability of raw materials.

In 2018 we performed climate change risk and opportunity assessment following the Taskforce on Climate-Related Financial Disclosures (TCFD) methodology. This allowed the evaluation of transition risks in addition to the physical ones considering impact drivers such as cost, asset efficiency and reputation.

As part of our IRA process, we have put in place an extensive risk control program by which to assess the physical risks of climate change. Locations with values exceeding \$30 million range are surveyed by engineers from our property insurer, who provide recommendations to us on the magnitude of environmental risks and the cost of management. Recommendations for risk management are given if the expected reduction in the financial impact of the risk exceeds the cost to comply by a factor of 10 or more. Internally, we focus on recommendations above the \$50 million range as management of identified risks can involve substantial capital investment and disruption to operations including our supply chain.

In 2020 and beyond (2020+) risk forecasting terms, we assumed as substantive risks those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves. This definition is applicable to PMI’s agricultural supply chain. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation.

F3.1b

(F3.1b) For your disclosed forest risk commodity(ies), provide details of risks identified with the potential to have a substantive financial or strategic impact on your business, and your response to those risks.

Forest risk commodity

Timber

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Increased commodity prices

Primary potential impact

Reduction or disruption in production capacity

Company-specific description

Timber products are key materials for the production of PMI products. For example, firewood is used for tobacco curing, while paper is used for the production of cigarettes and is also used in all packaging. Increased ecosystem vulnerability, fueled by additional deforestation could decrease the availability of timber products in the future. This can impact PMI's ability to manufacture its products if PMI firewood becomes more expensive, or pulp and paper products such as fine papers or cellulose acetate tow needed for the manufacture of cigarettes become more expensive. Such increase in our production costs might directly affect our revenue.

Timeframe

>6 years

Magnitude of potential impact

Medium-low

Likelihood

More likely than not

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

60,000,000

Potential financial impact figure - minimum (currency)

Potential financial impact figure - maximum (currency)

Explanation of financial impact figure

In 2020+ risk forecasting terms, for our tobacco supply chain, we assumed as substantive risks those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation. If we assume that the risk of increased ecosystem vulnerability will have an impact by increasing farmers' production costs, in case of firewood it would represent a 16% increase and raise our procurement cost accordingly (above our definition of substantive impact of US\$5M). The financial impact was estimated through the cost of firewood to farmers as a portion of total cost of production using public data sources on typical cost shares for similar agricultural products. This share was then applied to the procurement spend on tobacco by PMI each year. It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business as usual scenario, and increase by the same rate as diesel price under climate change scenarios.

Primary response to risk

Engagement with suppliers

Description of response

In 2016 PMI started developing a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with. PMI has continued to enforce this framework and expects all suppliers to be compliant and ensure that 100% of the biomass used for tobacco curing is sustainable and traceable by 2020. Suppliers will have to go through a third party audit as part of the framework by 2020. The implementation of the Monitoring Framework and the associated supplier engagement is expected to address the risk of increased ecosystem vulnerability by providing an understanding of the deforestation risk associated with tobacco curing through the development of forest risks maps. Tobacco leaf suppliers then have to develop a forest risk mitigation plan to manage the identified deforestation risks. PMI considers that the response has been effective and that tobacco leaf suppliers who have developed forest risks maps are equipped to develop risk mitigation plans. Since its development, the Monitoring framework has been an effective mechanism to identify and prevent any potential risks associated with disruptions in the supply chain. In 2016, PMI had no verifiable information of this issue, in 2018 the company was able to track above 75% of the curing fuel including biomass, ensuring that it is sustainably sourced according to the company's standards.

Cost of response

3,500,000

Explanation of cost of response

The cost of the response is the investment PMI has made in the design and implementation of the Monitoring Framework and associated activities to enable farmers to use sustainable fuels for tobacco curing. \$3,500,000 includes the costs associated to the annual budget to execute our Sustainable Tobacco Program initiative which include sustainable fuels. The annual budget is allocated to initiatives to catalyze the adoption of improved and innovative practices by the farmers in our supply chain. It include the costs to implement and verify the Monitoring Framework. It is expected that the same level of associated costs will continue after 2020.

Forest risk commodity

Timber

Type of risk

Regulatory

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Poor enforcement of regulation

Primary potential impact

Increased production costs

Company-specific description

PMI sources a portion of materials from certain countries known for their limited enforcement of regulation. Despite our high ethical standards and rigorous control and compliance procedures aimed at preventing and detecting unlawful conduct, given the breadth and scope of our international operations, we may not be able to detect all potential improper or unlawful conduct by our employees and partners. Additionally, if protected areas or timber harvest regulations are not enforced and if PMI does not have certainty that regulation designed to ensure sustainability of materials is enforced, PMI has to invest in additional measures when looking for assurance that a material is sustainable in those countries as even if regulation exists, it does not mean that is being enforced. For example, PMI sources tobacco leaves from Indonesia, Philippines, Malawi, among other countries. Based on the development of country-specific forest risk maps, we have identified possible deforestation risks in some of those countries. Even though forests are protected by law, this is not always enforced, therefore, PMI's production costs may increase due to the additional measures PMI is implementing to ensure all biomass used for fuel is sustainable (for example, local risk assessment procedures, additional engagement with local suppliers, development of sustainability projects).

Timeframe

Current - up to 1 year

Magnitude of potential impact

Medium-low

Likelihood

Very likely

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

60,000,000

Potential financial impact figure - minimum (currency)

Potential financial impact figure - maximum (currency)

Explanation of financial impact figure

In 2020+ risk forecasting terms, for our tobacco supply chain, we assumed as substantive risks those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves. Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation.

If we assume that the risk of poor enforcement of regulation will have an impact by increasing farmers' production costs - in case of firewood it would represent a 16% increase - the consequence would be our procurement cost raising accordingly. The financial impact was estimated through the cost of curing to farmers as a portion of total cost of production using public data sources on typical cost shares for similar agricultural products. This share was then applied to the procurement spend on tobacco by PMI each year. It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business as usual scenario, and increase by the same rate as diesel price under climate change scenarios.

Primary response to risk

Engagement with suppliers

Description of response

In 2016 PMI started developing a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and that should be audited by a third party by 2020. The Monitoring Framework requires tobacco leaf suppliers to ensure that 100% of the biomass used for tobacco curing is sustainable and traceable. The Monitoring Framework is an ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco (FCV). PMI actively engages with tobacco leaf suppliers to support them in the implementation of activities to comply with the Monitoring Framework. The implementation of the Monitoring Framework and the associated supplier engagement is expected to address the risk of poor enforcement of regulation by requiring tobacco leaf suppliers to ensure that all biomass used as fuel is sustainable. This will then be audited by a third party. PMI considers that the response has been effective and that tobacco leaf suppliers implementing the Monitoring Framework are addressing this risk. Currently, above 75% of the curing fuel including biomass, is sustainable and traceable, which has decreased the risk and is expected to prevent future impacts. Additionally, to address poor enforcement of regulation and other risks, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers including environmental, social and governance topics.

Cost of response

3,500,000

Explanation of cost of response

The cost of the response is the investment PMI has made in the design and implementation of the Monitoring Framework and associated activities to enable farmers to use sustainable fuels for tobacco curing. \$3,500,000 includes the costs associated to the annual budget to execute our Sustainable Tobacco Program initiative which include sustainable fuels. An annual budget is allocated to initiatives to catalyze the adoption of improved and innovative practices by the farmers in our supply chain. It include the costs to implement and verify the Monitoring Framework. It is expected that the same level of associated costs will continue after 2020.

Forest risk commodity

Timber

Type of risk

Reputational and markets

Geographical scale

Global

Where in your value chain does the risk driver occur?

Supply chain

Primary risk driver

Availability of certified sustainable material

Primary potential impact

Increased production costs

Company-specific description

The industry of specialty papers for cigarette production has a very limited offer of certified materials. Additionally, there is no mature market for certified firewood. These are challenges for PMI to source certified sustainable materials. If PMI is not able to find certified materials such as fine papers or cellulose acetate tow that are crucial for the manufacture of cigarettes, PMI will have to strengthen the requirements for suppliers. For the case of firewood, for example, PMI is already requiring tobacco leaf suppliers to ensure firewood is sustainable and traceable, which has increased production costs because PMI has engaged in various activities with the tobacco leaf suppliers.

Timeframe

1-3 years

Magnitude of potential impact

Medium-low

Likelihood

About as likely as not

Are you able to provide a potential financial impact figure?

Yes, a single figure estimate

Potential financial impact (currency)

60,000,000

Potential financial impact figure - minimum (currency)

Potential financial impact figure - maximum (currency)

Explanation of financial impact figure

In 2020+ risk forecasting terms, for our tobacco supply chain, we assumed as substantive risks those with a potential impact in excess of US\$5M or a raw material impact in excess of 1000 metric tonnes of tobacco leaves.

Over the last couple of years, we have been expanding our forest programs by first assessing current and future forest-related risks more broadly across our value chain. These risks include availability of forest resources, and impact on deforestation.

If we assume that the risk of poor enforcement of regulation will have an impact on an increase of farmers' production costs, this would result in raising our procurement cost accordingly. Financial impact was estimated through the cost of curing to farmers as a portion of total cost of production using public data sources on typical cost shares for similar agricultural products. This share was then applied to the procurement spend on tobacco by PMI each year. It was then assumed that the PMI procurement expenditure on tobacco would remain constant in a business as usual scenario, and increase by the same rate as diesel price under climate change scenarios.

Primary response to risk

Engagement with suppliers

Description of response

Sourcing certified materials provide assurance that the materials are sustainable. For some of the materials sourced by PMI the supply of certified materials is limited. PMI response has been since 2016, to develop a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and that should be audited by a third party by 2020. The Framework requires tobacco leaf suppliers to ensure that 100% of the biomass used for tobacco curing is sustainable and traceable. By having a third party auditor, the Monitoring Framework will achieve the same objectives as certified materials. This is an ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco. PMI actively engages with tobacco leaf suppliers to support them in the implementation of activities to comply with the Framework. The implementation of the Framework and the supplier engagement is expected to address the risk of limited availability of certified materials. PMI considers that the response has been effective and that tobacco leaf suppliers implementing the Monitoring Framework are addressing this risk. Currently, above 75% of the curing fuel including biomass, is sustainable and traceable, which



has decreased the risk and is expected to prevent future impacts. Pre-audit have been conducted in 2018, audits are expected to begin in 2019. Additionally, in 2017 PMI published its Responsible Sourcing Principles.

Cost of response

3,500,000

Explanation of cost of response

The cost of the response is the investment PMI has made in the design and implementation of the Monitoring Framework and associated activities to enable farmers to use sustainable fuels for tobacco curing. \$3,500,000 includes the costs associated to the annual budget to execute our Sustainable Tobacco Program initiative which include sustainable fuels. An annual budget is allocated to initiatives to catalyze the adoption of improved and innovative practices by the farmers in our supply chain. It include the costs to implement and verify the Monitoring Framework. It is expected that the same level of associated costs will continue after 2020.

F3.2

(F3.2) Have you identified any forests-related opportunities with the potential to have a substantive financial or strategic impact on your business?

	Have you identified opportunities?
Timber	Yes

F3.2a

(F3.2a) For your selected forest risk commodity(ies), provide details of the identified opportunities with the potential to have a substantive financial or strategic impact on your business.

Forest risk commodity

Timber

Type of opportunity

Resilience

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Improved supply chain engagement

Financial incentives

Company-specific description & strategy to realize opportunity

PMI identified an opportunity to improve the company's resilience by managing forest risks related to the sourcing of tobacco by engaging the company's tobacco suppliers. The company has developed a strategy to increase resilience through the development and application of the Monitoring Framework for Sustainable Leaf Curing Fuels. As part of this framework, tobacco suppliers should comply with a series of sustainability criteria to prevent deforestation and should be audited by a third party by 2020. The implementation of the Monitoring Framework since 2016 has increased PMI's engagement with tobacco suppliers and has allowed us to closely collaborate with them, securing our supply of sustainable materials and increasing the company's resilience. To realize the opportunity, PMI is working closely with tobacco suppliers by supporting them with technical assistance when they face challenges related to sustainability and traceability associated to the implementation of the monitoring framework. This might entail several measures such as holding strategy sessions with the suppliers, financing country-specific risk assessments and providing technical advice. PMI through its regional offices holds in-person meetings with tobacco leaf suppliers to discuss sustainability matters including their progress on sustainability and traceability. PMI also organizes conference calls and meetings as needed to provide technical assistance. It is expected that as a result of this engagement, suppliers will be able to prove sustainability and traceability in conformity with the Monitoring framework principles when audited by a third party. For example, in 2018, PMI continued to work closely with tobacco leaf suppliers in the Philippines to support them in efforts to increase clarity and shared understanding of current regulations among all tobacco leaf suppliers in the country. In 2018 in Brazil, PMI catalyzed the effort of all of its tobacco suppliers, guiding them and leading an industry common approach. Collaboration between suppliers was created through a PMI funded study to demonstrate sustainability of the wood fuel sources used by the farmers contracted by PMI's suppliers.

Estimated timeframe for realization

Current - up to 1 year

Magnitude of potential impact

Medium-high

Likelihood

Virtually certain

Are you able to provide a potential financial impact figure?

No, we do not have this figure

Potential financial impact figure (currency)

Potential financial impact figure – minimum (currency)

Potential financial impact figure – maximum (currency)

Explanation of financial impact figure

Currently, no direct financial benefit is anticipated for the company in relation to the opportunity selected. However, the outcome of this opportunity will enable PMI to build a stronger and more resilient value chain, and that it will be capable of positioning itself as a leading company collaborating with its suppliers to implement actions that contribute to a more sustainable future. This might change in the future and PMI might foresee a financial benefit aligned with the definition of substantive opportunity.

Forest risk commodity

Timber

Type of opportunity

Markets

Where in your value chain does the opportunity occur?

Supply chain

Primary forests-related opportunity

Driving demand for sustainable materials

Financial incentives

Company-specific description & strategy to realize opportunity

One of the findings of the deforestation risk assessment of PMI's value chain was that the industry of pulp and paper products specializing in materials for the production of cigarettes may be lagging behind in terms of sustainability, compared to other pulp and paper industries such as packaging. PMI, as one of the market leaders of the tobacco industry, has an opportunity to drive demand for verified sustainable materials in areas such as cellulose acetate tow and fine papers. PMI has not acted in this area yet and is currently analyzing options to realize this opportunity. Options include engagement with suppliers to understand their barriers to produce verified sustainable materials for the tobacco industry. PMI's definition of substantive opportunity mirrors the definition of substantive impact. Therefore, improved supply chain engagement will be a substantial opportunity. Additionally, to drive demand for verified sustainable materials, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with PMI. Through their application, our goal is to achieve measurable, tangible improvements in our supply chain.

Estimated timeframe for realization

4-6 years

Magnitude of potential impact

Medium-high

Likelihood

Likely

Are you able to provide a potential financial impact figure?

No, we do not have this figure



Potential financial impact figure (currency)

Potential financial impact figure – minimum (currency)

Potential financial impact figure – maximum (currency)

Explanation of financial impact figure

No direct financial benefit is anticipated for the company in relation to the opportunity selected. However, the outcome of this opportunity will enable PMI to build a stronger and more resilient value chain, and that it will be capable of positioning itself as a leading company collaborating with its suppliers to implement actions that contribute to a more sustainable future.

F4. Governance

F4.1

(F4.1) Does your organization have a policy that includes forests-related issues?

Yes, we have a documented forests policy that is publicly available

F4.1a

(F4.1a) Select the options to describe the scope and content of your policy.

	Scope	Content	Please explain
Row 1	Company-wide	Commitment to eliminate deforestation and/or conversion Commitment to eliminate forests degradation	Our forest policy called “Zero Deforestation Manifesto” and our Responsible Sourcing Principles cover the use of timber for curing tobacco in our agricultural supply chains, as well as paper and pulp-based products used for manufacturing purposes in all countries where PMI operates and sources materials from. These materials are key to the manufacturing of PMI’s products and

	<p>Commitment to protect rights and livelihoods of local communities</p> <p>Commitments beyond regulatory compliance</p> <p>Commitment to transparency</p> <p>Commitment to stakeholder awareness and education</p> <p>Commitment to align with public policy initiatives, e.g. SDGs</p> <p>Recognition of the overall importance of forests and other natural habitats</p> <p>Description of business dependency on forests</p> <p>Recognition of potential business impact on forests and other natural habitats</p> <p>Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy</p> <p>List of timebound commitments and targets</p> <p>Description of forests-related standards for procurement</p> <p>Reference to international standards and widely-recognized forests-related initiatives</p>	<p>therefore essential to the company's business; any disruptions on the availability or in their quality could directly translate in financial impacts for PMI. PMI's dependency on forests and its associated ecosystem services is covered in our policy. PMI recognizes that its operations can have potential impacts on forests and natural habitats both through its direct operations, and through its supply chain and has established time bound commitments and targets to tackle them. PMI set time bounded commitments to achieve zero net deforestation of High Conservation Value forests, zero net deforestation of natural forest and net positive impact of forests associated with the tobacco supply chain. These are applicable to all habitats and biomes within PMI's supply chain, for example, Miombo in Malawi and Tanzania, or semi-evergreen dry forests in Indonesia. PMI has developed specific guidelines and programs to tackle deforestation and make sure that the company can meet its commitments. PMI's Good Agricultural Practices (GAP) program has been active since 2002, while our Monitoring Framework for Sustainable Leaf Curing Fuel has been in place since 2016 and has been our main initiative to tackle deforestation risks. PMI collects data on multiple indicators, monitors the percentage of farmers being in line with best practice and engages those failing to adopt these practices or being in areas deemed as high-risk by the company's risk assessment processes. PMI is committed to raising stakeholders' awareness and improving their education on sustainability issues; the company shares key information and engages suppliers to share best agricultural practices. All together, these help farmers tackling arising risks from climate change, while contributing to several social and environmental SDGs. Both our Zero Deforestation Manifesto and our guidelines for agricultural suppliers are public, in line with PMI's commitment to transparency. Our policy is revised and updated if necessary on an annual basis.</p>
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F4.1b

(F4.1b) Do you have commodity specific sustainability policy(ies)? If yes, select the options that best describe their scope and content.

	Do you have a commodity specific sustainability policy?	Scope	Content	Please explain
Timber	Yes	Company-wide	<ul style="list-style-type: none"> Commitment to eliminate deforestation and/or conversion Commitment to eliminate forests degradation Commitment to protect rights and livelihoods of local communities Commitments beyond regulatory compliance Commitment to transparency Commitment to stakeholder awareness and education Commitment to align with public policy initiatives, e.g. SDGs Recognition of the overall importance of forests and other natural habitats Description of business dependency on forests 	<p>Our forest policy called “Zero Deforestation Manifesto” and our Responsible Sourcing Principles cover the use of timber for curing tobacco in our agricultural supply chains, as well as paper and pulp-based products used for manufacturing purposes in all countries where PMI operates and sources materials from. These materials are key to the manufacturing of PMI’s products and therefore essential to the company’s business; any disruptions on the availability or in their quality could directly translate in financial impacts for PMI. PMI’s dependency on forests and its associated ecosystem services is included in our policy. PMI recognizes that its operations can have potential impacts on forests and natural habitats both through its direct operations, and through its supply chain and has established time bound commitments and targets to tackle them. PMI set time bounded commitments to achieve zero net deforestation of High Conservation Value forests, zero net deforestation of natural forest and net positive impact of forests associated with the tobacco supply chain. These are applicable to all habitats and biomes within PMI’s supply chain, for example, Miombo in Malawi and Tanzania, or semi-evergreen dry forests in Indonesia. PMI has developed specific guidelines and programs to tackle deforestation and make sure that the company can meet its commitments. PMI’s Good Agricultural Practices (GAP) program has been active since 2002, while our Monitoring Framework for Sustainable Leaf Curing Fuel has been in place since 2016 and has been our main initiative to</p>

			<p>Recognition of potential business impact on forests and other natural habitats</p> <p>Description of forest risk commodities, parts of the business, and stages of value-chain covered by the policy</p> <p>List of timebound commitments and targets</p> <p>Description of forests-related standards for procurement</p> <p>Reference to international standards and widely-recognized forests-related initiatives</p>	<p>tackle deforestation risks. PMI collects data on multiple indicators, monitors the percentage of farmers being in line with best practice and engages those failing to adopt these practices or being in areas deemed as high-risk by the company's risk assessment processes. PMI is committed to raising stakeholders' awareness and improving their education on sustainability issues; the company shares key information and engages suppliers to share best agricultural practices. All together, these help farmers tackling arising risks from climate change, while contributing to several social and environmental SDGs. Both our Zero Deforestation Manifesto and our guidelines for agricultural suppliers are public, in line with PMI's commitment to transparency. Our policy is revised and updated if necessary on an annual basis</p>
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F4.2

(F4.2) Is there board-level oversight of forests-related issues within your organization?

Yes

F4.2a

(F4.2a) Identify the position(s) of the individual(s) (do not include any names) on the board with responsibility for forests-related issues.

Position of individual	Please explain

Board-level committee	<p>PMI's Board of Directors (BoD) and its committees are responsible to foster the long-term success of the company. This includes setting broad corporate policies, strategic direction, and to oversee management, who is responsible for daily operations. As such, the Board and its Committees are responsible for overseeing the direction and management of the company on sustainability issues including forest-related issues such as deforestation, flood or drought, increased pressure on forest resources, preservation of biodiversity, land and forest affecting our direct operations and/or our supply chain, which may impact PMI's ability to operate. In 2018, the BoD mandated the Nominating and Corporate Governance Committee of the Board, composed by 6 BoD members, to oversee PMI's sustainability strategies and performance, including climate change and forest-related issues, and a set of initiatives aiming to eliminate unfavorable impacts of our business on the environment and forest resources.</p>
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F4.2b

(F4.2b) Provide further details on the board's oversight of forests-related issues.

	Frequency that forests-related issues are a scheduled agenda item	Governance mechanisms into which forests-related issues are integrated	Please explain
Row 1	Scheduled - some meetings	<p>Monitoring implementation and performance</p> <p>Overseeing acquisitions and divestiture</p> <p>Overseeing major capital expenditures</p> <p>Providing employee incentives</p> <p>Reviewing and guiding annual budgets</p> <p>Reviewing and guiding business plans</p>	<p>The Board of Directors oversees the company's full range of activities including establishing broad corporate policies, setting strategic direction, and overseeing management, which is responsible for the day-to-day operations of the company. Part of the Board's oversight is focus on management's efforts to enhance shareholder value responsibly and sustainably.</p> <p>The Board approves the company's annual budget each year and receives updates on the company's performance and targets against the budget throughout the year including those related to forests. The Board has established various standing Committees to assist with the performance of its responsibilities and is regularly informed on the company's performance, future plans, and significant issues affecting the business. The Board meets typically 6 times per year with additional meetings held as necessary.</p> <p>The Board oversees the management of risks relating to the Company's business. Risk oversight is conducted both by the Committees of the Board as well as by the full Board. Management has identified and prioritized a number of key enterprise risks. As part of the</p>

	Reviewing and guiding corporate responsibility strategy Reviewing and guiding major plans of action Reviewing and guiding risk management policies Reviewing and guiding strategy Reviewing innovation / R&D priorities Setting performance objectives	risk management process, the Company has established a Corporate Risk Governance Committee (“CRGC”) comprising the COO, the CFO, the Vice President and Controller, the Vice President Corporate Audit, and the Vice President and Chief Ethics & Compliance Officer. Management reports on these risks to the appropriate Committee and to the full Board.
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F4.3

(F4.3) Provide the highest management-level position(s) or committee(s) with responsibility for forests-related issues (do not include the names of individuals).

Name of the position(s) and/or committee(s)	Responsibility	Frequency of reporting to the board on forests-related issues	Please explain
Other C-Suite Officer, please specify Senior Vice President, Operations	Both assessing and managing forests-related risks and opportunities	Half-yearly	Our Senior Vice President Operations (SVP Operations) is a member of PMI’s Senior Management Team. He reports to PMI’s Chief Operating Officer, and is delegated with operational responsibility, including maintaining robust business resiliency, risk assessment processes and strategies to support business continuity. SVP Operations examines and monitors climate related issues, including forest related issues, ensuring the integration of risk assessment and management into

			<p>long-range plan, objectives, budget and performance review processes. In 2018 SVP Operations created the Operations Sustainability Function reporting directly to him and tasked to drive environmental strategies including forest-related issues, and their full integration into the business.</p> <p>He receives updates on progress towards objectives and their achievement, in monthly meetings with the Operations Management Team (OMT) reporting to him, and during quarterly functional reviews of the Operations Sustainability function and management team.</p> <p>SVP Operations is tasked with responsibility for addressing climate change risks as these could result in natural disasters, water scarcity, and agricultural instability, which may impact PMI's ability to operate. Effectively addressing these risks is critical to the achievement of PMI's strategic objectives and as such is considered during the annual Integrated Risk Assessment. Management provided the Board with insights on the reassessment process throughout 2018.</p>
Chief Sustainability Officer (CSO)	Both assessing and managing forests-related risks and opportunities	Half-yearly	<p>Our Senior Management Team is responsible for leading, overseeing and reviewing the Company's sustainability activities, including climate-related issues – strategy, key programs, objectives and budget — through a cross-functional representation: The Sustainability Committee led by the Chief Sustainability Officer (CSO; although the CSO was formally established in the Company early 2019, the Position was already existing in 2018), who reports to the President External Affairs & General Counsel, a member of PMI's Senior Management Team.</p> <p>The CSO coordinates the Sustainability Committee, composed of senior leaders from various functions (including Operations, People & Culture, External Affairs, Commercial, Science & Innovation, Global Communications, Finance, Investor Relations, and Corporate Audit).</p>
Sustainability committee	Both assessing and managing forests-related risks and opportunities	Annually	<p>In 2018, our Senior Management Team was responsible for reviewing sustainability matters, including forest-related issues – strategy, key programs, and budget — through a cross-functional representation, coordinated by the Sustainability Team led by the Chief Sustainability Officer, who reports to the President External Affairs</p>



			<p>& General Counsel, a member of PMI’s Senior Management Team.</p> <p>The CSO coordinates the Sustainability Committee, composed of senior leaders from various functions (including Operations, People & Culture, External Affairs, Commercial, Science & Innovation, Global Communications, Finance, Investor Relations, and Corporate Audit). In 2018 the Sustainability Committee met 3 times and the Senior Management Team was updated accordingly.</p> <p>The Sustainability Team strives to equip our Company with the relevant know-how and expertise in view of the changing nature of our business. From an operational perspective, the Sustainability Team manages and coordinates our sustainability work, including climate-related issues, across PMI functions and regions seeking to ensure it is embedded at all levels of the organization. This helps ensure that our global strategies and programs can be implemented at the market level, and that local realities are also reflected in our global efforts.</p>
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F4.4

(F4.4) Do you provide incentives to C-suite employees or board members for the management of forests-related issues?

Yes

F4.4a

(F4.4a) What incentives are provided to C-Suite employees or board members for the management of forests-related issues (do not include the names of individuals)?

	Who is entitled to benefit from these incentives?	Indicator for incentivized performance	Please explain

<p>Monetary reward</p>	<p>Corporate executive team Chief Executive Officer (CEO) Other, please specify Sustainability Managers, Employees, Management Group, Sustainability Manager</p>	<p>Achievement of commitments and targets</p>	<p>The Compensation and Leadership Development Committee of the Board of Directors determined the 2018 cash incentive award performance rating based on 2018 results versus performance metrics we had pre-established. Achievement of commitments and targets was selected as an indicator of success as it allows PMI to objectively quantify the progress of the company in the field of sustainability including forests related issues, namely on the company's traceability and sustainable sourcing targets as well as the company's commitments. Our carbon footprint reduction targets are also part of our sustainability objectives and commitments. PMI uses progress towards its sustainability targets as the threshold of success, therefore rewards are provided if progress is either linear to the overall target, or exceeding a linear trend. This is measured by a series of indicators including results from PMI's monitoring framework, GHG accounting, water accounting, as well as other internal metrics such as the rapid progress towards the acceleration of our smoke free vision. The executive compensation awards are in accordance with the PMI Performance Incentive Plan approved by PMI shareholders. Monetary reward 1) CEO - Our CEO specifically covers sustainability results including Environment and Health and Safety (EHS) in the assessment of our annual company-wide performance that is reviewed by the Compensation and Leadership Development Committee. Accordingly, these results are included in our overall performance rating which determines the cash bonuses for the management group and other eligible employees. Executive management covering EHS topics are specifically appraised each year for performance against targets. 2) Management group - Executive management covering sustainability including EHS topics are specifically appraised each year for performance against targets. The assessment of sustainability results including EHS directly influences the annual performance rating of our SVP Operations and certain members of our Management Team. 3) All employees - Specific company awards such as the CEO Award and Recognition for Excellence Awards, which are either cash or stock, are available for Energy Managers, Sustainability, including Environment and Health and Safety (EHS)</p>
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			Managers, project teams and other employees who are responsible for forest related initiatives.
Recognition (non-monetary)	Corporate executive team Chief Executive Officer (CEO) Other, please specify All employees	Achievement of commitments and targets	Behavior change related indicator: annually many affiliates continued to perform voluntary awareness and promotion campaigns/ programs in order to increase employees' active participation in sustainability including Environment and Health and Safety (EHS) programs and to make carbon footprint reduction part of the company's culture. Awards and recognition for best practices form a core element of such campaigns and are awarded in line with the achievement of sustainability commitments and targets. Achievement of commitments and targets was selected as an indicator of success as it allows PMI to objectively quantify the progress of the company in the field of forests and sustainability. Our carbon footprint reduction targets are also part of our sustainability objectives and commitments. PMI uses progress towards its sustainability targets as the threshold of success, therefore rewards are provided if progress is either linear to the overall target, or exceeding a linear trend. This is measured by a series of indicators including results from PMI's monitoring framework, GHG accounting, water accounting, as well as other internal metrics such as the rapid progress towards the acceleration of our smoke free vision.
Other non-monetary reward	No one is entitled to these incentives		

F4.5

(F4.5) Did your organization include information about its response to forests-related risks in its most recent mainstream financial report?

No, but we plan to do so in the next two years

F5. Business strategy

F5.1

(F5.1) Are forests-related issues integrated into any aspects of your long-term strategic business plan, and if so how?

	Are forests-related issues integrated?	Long-term time horizon (years)	Please explain
Long-term business objectives	Yes, forests-related issues are integrated	11-15	<p>Forests related issues have been integrated in PMI's long-term business objectives since 2016, when PMI worked with Business for Social Responsibility (BSR) to identify the areas that are most significant to both our business sustainability and to our stakeholders and prioritized them, including risks, opportunities and emerging themes that required management action and business planning. In 2018, we worked with BSD Consulting, an ELEVATE company, to carry out a comprehensive sustainability materiality assessment and further strengthen PMI's sustainability materiality assessment process.</p> <p>The assessment, which fostered transparency and credibility, enabled us to further embed sustainability across the company, and specifically forest-related issues which came out as a key important topic to be incorporated into PMI's 2025 sustainability strategy.</p> <p>Since 2016, PMI has continued to integrate forests issues in long-term business objectives, particularly through the development of metrics and frameworks to inform our business strategy, as well as the establishment of targets and goals to ensure a sustainable supply of raw materials.</p> <p>In 2018 PMI continued to use its Monitoring Framework to verify suppliers' sustainability attributes and identify additional sustainability risks. As Brazil was identified as a high risk region for the company, PMI is now working with its agronomy team, tobacco suppliers, an external agency and a local university to further validate the sustainability of firewood sources. In this same region, PMI is restoring 145 hectares of riparian areas and forests, using species that are fast growing and native to the local ecosystem. Through such case studies PMI makes sure that the company is on track to ensure a</p>

			sustainable supply of raw materials, which are essential both for the elaboration of the company's products and long-term business objectives. The indicated time frame was chosen as it is aligned with the company's forests related targets.
Strategy for long-term objectives	Yes, forests-related issues are integrated	11-15	<p>Achieving sustainable tobacco production is a strategic issue for PMI. For this reason, the company has set goals and developed strategic plans to avoid deforestation, and reduce greenhouse gas emissions from tobacco curing All of which has been integrated in our strategy for long-term objectives through the following three strategic initiatives:</p> <ul style="list-style-type: none"> ♣ Reduce the fuel consumption rate via curing efficiency improvement and curing barn optimization programs; ♣ Move from unsustainable to sustainable curing fuel sources; ♣ Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood or fossil fuels, where appropriate. <p>For example, to implement the strategic initiative to move from unsustainable to sustainable curing fuel sources, PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability The global roadmap for sustainable firewood provides a timeline for the achievement of the three above targets, the set timeline for its achievement is until 2020. The time horizon was chosen because PMI wants to demonstrate its efforts and leadership on sustainability, climate change and forest-related issues in accordance with its business strategy which considers the transition to a smoke free world. Additionally, we developed Science Based Targets to be achieved by 2030 and 2040. In 2018, PMI continued to enforce its monitoring framework, as well as its risk assessment focusing on tobacco leaf, and pulp and paper.</p>
Financial planning	Yes, forests-related issues are integrated	11-15	Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to avoid deforestation and reduce greenhouse gas emissions from tobacco curing. As PMI is working towards achieving these goals, human and financial resources are allocated into long-term financial planning for forest related issues. For example, since 2016 PMI developed a Monitoring Framework for Sustainable Leaf Curing Fuels that tobacco leaf suppliers should comply with and that should be audited by a third party by 2020. The Monitoring Framework requires tobacco leaf suppliers to ensure that 100% of the biomass used for tobacco curing is sustainable and traceable. The

			<p>Monitoring Framework is an ongoing process and it is being implemented in all countries where PMI sources Flue Cured Virginia tobacco. Since its design, careful financial planning including actions, and resources have been allocated to facilitate the achievement of PMI's forest-related objectives. In very challenging markets such as Brazil, PMI is working with tobacco leaf suppliers to explore options to ensure long-term sustainable supply of firewood and developing local projects to tackle deforestation. This includes efforts in researching and forecasting potential costs of transforming the entire supply chain of firewood.</p>
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F6. Implementation

F6.1

(F6.1) Has your organization made a public commitment to reduce or remove deforestation and/or forest degradation from its direct operations and/or supply chain?

Yes

F6.1a

(F6.1a) Has your organization endorsed any of the following initiatives as part of its public commitment to reduce or remove deforestation and/or forest degradation?

We Mean Business

F6.1b

(F6.1b) Provide details on your public commitment(s), including the description of specific criteria, coverage, and actions.

Commodity coverage

Timber

Criteria

- No conversion of natural habitats
- Zero gross deforestation
- Zero net deforestation
- No forest degradation
- Forest landscape restoration
- Avoidance of negative impacts on threatened and protected species and habitats
- No trade of CITES listed species
- No land clearance by burning or clearcutting
- No conversion of High Conservation Value areas
- Adoption of Free, Prior and Informed Consent (FPIC) principles
- Adoption of the UN International Labour Organization principles
- No sourcing of illegally produced and/or traded forest risk commodities
- No sourcing of forest risk commodities from unknown/controversial sources

Operational coverage

Supply chain

% of total production/ consumption covered by commitment

100%

Cutoff date

2006

Commitment timeframe

2026-2030

Please explain

To achieve our forest related commitments as stated in our zero deforestation manifesto, we have two core action areas: supplier engagement and third party verification. As a result of the deforestation risk assessment of our entire value chain, we identified priority suppliers with whom

we engage with the aim to ensure that they are managing their deforestation risks. In 2018 we developed a plan for a third party audit that will cover: land rights (including FPIC), environmental compliance, environmental management, and resource consumption and waste minimization. Additionally, in 2018 we started the third party audit process to verify the compliance of our suppliers with the Monitoring Framework for Sustainable Leaf Curing Fuels. As part of this, suppliers must provide evidence that there was no conversion of natural habitats in order to produce firewood using a cut-off date of 2006, and that they are sourcing sustainable, traceable and legal firewood. We are also working with some of our suppliers supporting them in forest landscape restoration initiatives, for example in Brazil. We are currently designing the next steps to achieve our zero net deforestation commitments and in the next years we will design our strategy to achieve net positive impact on forests. Another example of our work with farmers to prevent deforestation and promote sustainable development is the development of live barns in Malawi and Mozambique, where timber is traditionally used to build barns. As the wooden poles used in the barns are attacked by termites, they need to be replaced regularly. This issue has been solved with the concept of the “live barn” – a structure of living trees which support the curing poles and remain in place for many years. Since 2014, PMI suppliers have grown more than 85,000 such barns across the two countries. The first 1,000 live barns we planted are now being used. In 2018, we supported the planting of ten million trees that in future would grow to be the poles for some 68,400 barns. By 2020, our plan is that all contracted Burley farmers in Malawi and Mozambique will have live barns planted. This program will help farmers conserve the environment and increase biodiversity, promote efficiency on their farms, provide additional wood for their own use from annual pruning, and effectively reduce deforestation.

F6.2

(F6.2) Did you have any quantified targets for increasing sustainable production and/or consumption of your disclosed commodity(ies) that were active during the reporting year?

Yes

F6.2a

(F6.2a) Provide details of your target(s) for increasing sustainable production and/or consumption of the disclosed commodity(ies), and progress made.

Target reference number



Target 1

Forest risk commodity

Timber

Form of commodity covered

Wood-based bioenergy

Type of target

Sustainable procurement standard

Coverage

Direct operations and supply chain

Traceability point

Third-party certification scheme

Start year

2014

Start figure

21-30%

Target year

2020

Target

100%

% achieved

71-80%

Please explain

Sustainable tobacco production is key for PMI and the company has set goals and developed strategic plans to reduce greenhouse gas emissions from tobacco curing as well as to tackle the risk of deforestation. The 3 strategic initiatives are: ▪ Reduce the fuel consumption rate via curing efficiency improvement and curing barn optimization programs; ▪ Move from unsustainable to sustainable curing fuel sources; ▪ Encourage fuel switching to less polluting fuels and the use of biomass as an alternative to unsustainable wood or fossil fuels where appropriate. PMI has adopted a Global Roadmap for sustainable firewood, which includes the following three global targets: 1. No Old Growth Forest cut 2. Renewable sources/Self-sufficient firewood 3. Full traceability. The global roadmap for sustainable firewood provides a timeline for the achievement of the three targets above, the set timeline for their achievement is until 2020. Biodiversity management and Social and economic development are aspirational sustainability targets to be achieved in the long term beyond 2020. PMI is currently implementing a harmonized and verifiable Monitoring Framework for Sustainable Leaf Curing Fuel (referred to as Monitoring Framework) to monitor the progress towards our global targets. The monitoring framework is composed of four principles, and Principle 2 “Be Sustainable” focuses on sustainability and traceability of the fuel source. The purpose is to ensure that all origins switch to fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). Additionally, no coal should be used as a fuel to cure tobacco. PMI is supporting and engaging in capacity building activities with tobacco leaf suppliers to ensure they are able to comply with the Monitoring Framework by 2020 and beyond. PMI considers that the implementation of the Monitoring Framework is proving effective and it estimates that above 75% of the curing fuel is sustainable and traceable.

Target reference number

Target 2

Forest risk commodity

Timber

Form of commodity covered

Pulp

Paper

Type of target

Traceability

Coverage

Direct operations and supply chain

Traceability point

Plantation

Third-party certification scheme

Start year

2018

Start figure

0%

Target year

2022

Target

100%

% achieved

1-10%

Please explain

In our non-tobacco supply chains, the main deforestation risks are related to pulp and paper products, for which we aim for zero net deforestation of primary and HCV forests by 2025 and 2022 respectively, and zero net deforestation of all natural forests by 2030. In practice,



this means 100% traceability to the forest source and 100% use of certified, or verified, materials by 2022. Our approach towards zero net deforestation and traceability goals is to: 1. Work with priority suppliers to assess their risk level and sustainability practices; 2. Deepen our assessment of the risk level for each supplier and compare suppliers, using a ratings scorecard; 3. Collect best practices and remediation actions, such as sustainable sourcing policies, improved traceability, increased share of certified or verified materials, and upstream capacity building; and 4. Refine our corporate commitment relating to deforestation risk and learn from leading pulp and paper suppliers.

F6.3

(F6.3) Do you have traceability system(s) in place to track and monitor the origin of your disclosed commodity(ies)?

	Do you have system(s) in place?
Timber	Yes

F6.3a

(F6.3a) Provide details on the level of traceability your organization has for your disclosed commodity(ies).

Timber

% of total production/consumption volume traceable

71-80%

Point to which commodity is traceable

Plantation

Description of traceability system

PMI is currently implementing a harmonized and verifiable monitoring framework to allow monitoring of progress towards our goals of the sustainable leaf curing fuel roadmap. The monitoring framework is composed of four principles, and Principle 2 focuses on sustainability and traceability of the source. One of the indicators addresses traceability directly stating that all the fuel used for tobacco curing activities should be traceable to the source with supported documentation. This means that information should be provided for all Farmers/curing centers. Documentation should be available annually. This will help PMI to identify and document unsustainable sources of fuel that would not be in conformity with PMI's sustainability objectives. Documentation is required for auditing purposes. Required documentation includes:

- a. Purchased fuel: documentation consist of the receipts of the fuel purchased by all the farmers (or centers). The receipts should have the name of the biomass vendor and the amount of fuel purchased. For biomass (wood fuel and agro fuel), a verification of the source of the fuel is needed. The verification should be a report that contains evidence of the fuel source (e.g. Pictures of the place where the biomass is obtained). For supplies using intermediaries, a research should provide the information. The methodology for the research should be clearly defined and reported as well. If the source of information is from existing literature, it should be from reliable sources such as universities, international organizations (e.g. FAO) and research institutes.
- b. Farmer and community woodlot, commercial plantations from tobacco leaf suppliers and self-collected biomass: documentation should prove the source of the fuel and the amount of the fuel from a specific source. For example, tobacco leaf suppliers in the Philippines that use wood pellets to cure tobacco are able to show the contract, and receipts of the wood pellets supplier, additionally they can show the correspondent government permits that certifies the plantation from where the timber comes from. PMI did a verification visit in 2017, in 2018 pre audits will take place covering 40% of the volume of purchased tobacco, audits will take place in 2019 and 2020. It is expected that the traceability system will continue beyond 2020.

Exclusions

Not applicable

Description of exclusion

Not applicable.

F6.4

(F6.4) Do you specify any third-party certification schemes for your disclosed commodity(ies)? Indicate the volume and percentage of your production and/or consumption covered.

Forest risk commodity

Timber

Do you specify any certification scheme?

No

Certification coverage

Third-party certification scheme

% of total production/consumption volume certified

Form of commodity

Volume of production/ consumption certified

Metric

Please explain

PMI is not specifying third-party certification schemes for its disclosed commodities, as these are sourced in line with the company's own sustainability sourcing standards which are specific to tobacco production. PMI's sourcing and use of timber materials is in line with the company's Zero deforestation manifesto (i.e. forest policy) and zero deforestation commitments, and are verified by third parties

F6.5

(F6.5) Do you specify any sustainable production/procurement standards for your disclosed commodity(ies), other than third-party certification? Indicate the percentage of production/consumption covered and if you monitor supplier compliance with these standards.

Forest risk commodity

Timber

Do you specify any sustainability standards?

Yes

Type of standard

Procurement

Description of standard

As part of the monitoring framework, PMI developed a set of rigorous monitoring principles and underlying indicators, requirements and guidance, which should be applied within countries where PMI sources Flue Cured Virginia tobacco in order to develop consistent and simple monitoring measures with regard to sustainable curing fuel. The principles are: 1. Know your fuel source: quantify fuel usage and source of all fuels used for tobacco curing. 2. Be sustainable: ensure that all origins switch to use fuels of a demonstrated sustainable source such as biomass from waste agricultural residues or wood fuel from sources which are proven to be sustainably managed (in accordance with the PMI defined criteria of sustainable wood fuel). No coal should be used as a fuel to cure tobacco. 3. Be transparent and replicable: have a clear and accessible process and communication that facilitate coordination of actions among different stakeholder. Replicability will ensure that data collection and reporting is consistent to allow for comparisons and compilation of data locally and globally. Moreover it will allow the upscaling of processes that have been demonstrated to be successful. 4. Include stakeholders: to include various stakeholders involved in the FCV tobacco curing process, in order to understand their specific characteristics and situation given the country they are operating. This will allow to adjust monitoring activities according to local situation to ensure proper implementation of activities and data collection. In 2018 several countries including Canada, Brazil, Mexico, Malawi, Italy and Indonesia had a pre-audit. In 2019 audits will be rolled out. Additionally, in 2017 PMI published its Responsible Sourcing Principles. These principles provide process and performance requirements applicable to all suppliers doing business with PMI. Through their application, our goal is to achieve measurable, tangible improvements in our supply chain.

% of total commodity volume covered by standard

71-80%

Do you have a system in place to monitor compliance with this standard?

Yes

Type(s) of monitoring system

Third-party auditing

% of suppliers in compliance with standards

31-40%

Please explain

PMI has developed a new Monitoring Framework to systematically monitor the sustainability of all fuel types used in our tobacco supply chain. As part of this monitoring framework, tobacco leaf suppliers are required to report on the location of their contracted tobacco farmers and to collect information regarding the location of the tobacco farmers and the source of firewood that they use to produce the tobacco that we purchase. To prove that firewood is renewable and traceable, we use our Monitoring Framework, to verify the sustainability attributes of how our suppliers and their farmers are managing deforestation risks. The Framework is an internal standard that aligns with international best practices and is verified by a third party. It requires full chain of custody not only for tier 1 suppliers but also for many tier 2 suppliers. The proportion of tobacco we currently purchase that is cured with wood fuel at no risk of deforestation stands at approximately 90%. We have the target to be at 100% in 2020. The Monitoring Framework and the third party audit process are used to annually assess PMI's impacts. We will apply the new Monitoring Framework in all flue-cured sourcing markets, with audits to be completed by 2020. In 2018, PMI carried out 6 pre audits with farmers in Canada, Brazil, Mexico, Malawi, Italy and Indonesia.

F6.7

(F6.7) Are you working with your direct suppliers to support and improve their capacity to supply sustainable raw materials?

	Are you working with direct suppliers?	Supplier engagement approach	Please explain
Timber	Yes, working with direct suppliers	<ul style="list-style-type: none"> Encouraging work with multi-stakeholder groups Supplier questionnaires on environmental and social indicators Workshops and training Supplier audits Joint projects 	In 2018 PMI worked with 100% of our direct tobacco leaf suppliers from which we source Flue Cured Virginia tobacco In the implementation of the monitoring framework. PMI regional coordinators engage directly with tobacco leaf suppliers in each country to communicate and ensure tobacco leaf suppliers understand the monitoring framework. PMI also provides technical and financial support when tobacco leaf suppliers need support to comply with the principles stated in the monitoring framework. For example, PMI financed the development of country specific forest risk maps. A map has been developed for each country in which farmers use firewood: Philippines, Malawi, Mozambique, Canada, Indonesia, Pakistan and Tanzania. In 2018, PMI held strategy

	Financial support Technical support	sessions and workshops with all suppliers in China, Philippines and Pakistan. The sessions were intended to support the suppliers in designing the strategy to achieve sustainable and traceable sources of fuel. In each case, the supplier presented their challenges and in achieving these targets and a roadmap was developed. Follow up sessions were scheduled and additional technical support, including for example the development of templates for suppliers to report the sourcing of firewood by smallholder farmers. As a result, all suppliers in these countries have improved their capacity and have advanced in documenting the sourcing of sustainable and traceable fuelwood by their contracted farmers.
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F6.8

(F6.8) Are you working beyond your first-tier supplier(s) to manage and mitigate forests-related risks?

	Are you working beyond first tier?	Please explain
Timber	Yes, working beyond first tier	PMI is working with its direct tobacco leaf suppliers in the implementation of the Monitoring Framework for Sustainable Leaf Curing Fuel. Compliance with the framework is only possible with the active engagement of tobacco leaf suppliers with farmers, who are our suppliers beyond first tier. The Monitoring Framework has been rolled-out in every relevant market, and above 90% of our tobacco purchases are through direct contract by our leaf operations or our tobacco leaf suppliers. Therefore, in 2018 PMI has engaged with at least 90% of our tobacco leaf suppliers' contracted farmer base. For example, farmers in Indonesia, Philippines, Canada, Malawi, Mozambique, Brazil, Mexico, Pakistan, have received training specific to the Monitoring Framework. In some countries such as the Philippines, after the training focusing on sustainable and traceable firewood, farmers completed a questionnaire that measures their understanding of the topics covered on the training. Allowing PMI and its first tier tobacco leaf suppliers to plan for the following trainings or for additional support if needed. Additionally, farmers are visited by field technicians several times a year.

F6.9

(F6.9) Do you participate in external initiatives or activities to further the implementation of your policies concerning the sustainability of your disclosed commodity(ies)?

Forest risk commodity

Timber

Do you participate in activities/initiatives?

Yes

Activities

Engaging with non-governmental organizations

Initiatives

Please explain

To achieve the targets of 100% sustainable and traceable firewood, PMI is currently engaged in industry efforts to collaborate with NGOs and other stakeholders in areas such as reforestation, availability of sustainable firewood, among others. This approach is currently being implemented in Brazil and Philippines where all PMI tobacco leaf suppliers come together and plan an industry strategy and collaborate with other stakeholders to achieve sustainability and traceability of fuel sources. For example, in Brazil, the implementation of the Monitoring Framework has triggered all three main tobacco leaf suppliers to form an industry approach to manage sustainability and traceability of firewood. PMI and tobacco leaf suppliers in Brazil are coordinating to develop sustainability study every 4 years from 2019 onwards. Taking an industry approach will help strengthen the efforts to achieve 100% sustainability and traceability of firewood.

PMI is also a member of the WBCSD Forests Solutions Group.

F7. Linkages and trade-offs

F7.1

(F7.1) Has your organization identified any linkages or trade-offs between forests and other environmental issues in its direct operations and/or other parts of its value chain?

Yes

F7.1a

(F7.1a) Describe the linkages or trade-offs and the related management policy or action.

Linkage/tradeoff

Linkage

Type of linkage/tradeoff

Decreased GHGs emissions

Description of linkage/tradeoff

PMI committed to decrease its carbon footprint by 30% across its value chain by 2020 compared to 2010 baseline. Tobacco accounts for around 38% of PMI's carbon footprint, thus PMI Leaf, the department in charge of sourcing tobacco, set goals and developed strategic initiatives to reduce GHG emissions. PMI found that by managing forest related-risk, it is also contributing to its GHG emission reduction goal.

Policy or action

Given the link between carbon emissions and deforestation, PMI decided to strengthen the management of deforestation risks by developing the deforestation risk assessment of the entire value chain and by implementing the Monitoring Framework for Sustainable Leaf Curing Fuel. The results of the assessment contribute to strategic decision making on which regions or suppliers are prioritized. In 2018, PMI managed to

increase the proportion of flue-cured tobacco purchased cured with renewable fuel sources to 46% (from 36% in 2017), while reducing its emissions to 5,504 tCO₂e (from 5,767 tCO₂e in 2017), in line with the company's targets.

Linkage/tradeoff

Linkage

Type of linkage/tradeoff

Decreased GHGs emissions

Description of linkage/tradeoff

By improving curing barn efficiency, we can decrease the amount of wood fuel needed to cure tobacco. The plan is to improve combustion efficiency, ventilation or controls of 60,000 flue-cured barns by 2020, resulting in 10% GHG emissions reduction in the tobacco curing process. The improvement has been done in Brazil, Indonesia, Spain, Italy, Colombia, Malawi, Mozambique, Pakistan, Philippines and Tanzania.

Policy or action

Good Agricultural Practices: Actions: to ensure tobacco farmers have access to the information, systems and tools needed to be successful business owners who minimize the environmental impacts of their activities and provide good working conditions on their farms. In 2018, PMI managed to increase the proportion of flue-cured tobacco purchased cured with renewable fuel sources to 46% (from 36% in 2017), while reducing its emissions to 5,504 tCO₂e (from 5,767 tCO₂e in 2017), in line with the company's targets.

F8. Verification

F8.1

(F8.1) Do you verify any forests information reported in your CDP disclosure?

Yes

F8.1a

(F8.1a) Which data points within your CDP disclosure have been verified, and which standards were used?

Disclosure module

F6. Implementation

Data points verified

To prove that firewood is renewable and traceable, we use our Monitoring Framework, to verify the sustainability attributes of how our suppliers and their farmers are managing deforestation risks.

Verification standard

The Framework is an internal standard that aligns with international best practices and standards, and it is verified by a third party. It requires full chain of custody not only for tier 1 suppliers but also for many tier 2 suppliers.

Please explain

The proportion of tobacco we currently purchase that is cured at no risk of deforestation stands at approximately 90%. Monitoring and supplier engagement go hand in hand. To ensure fuel sources are sustainable, we support suppliers and farmers in planting trees to supply renewable firewood for tobacco curing.

F9. Barriers and challenges

F9.1

(F9.1) Describe the key barriers or challenges to avoiding forests-related risks in your direct operations or in other parts of your value chain.

Forest risk commodity

Timber

Coverage

Supply chain

Primary barrier/challenge type

Supply chain complexity

Comment

Our use of pulp and paper products and the use of firewood as fuel for tobacco curing are the areas of our supply chain with forest-related risks. In some countries, the supply chain for firewood as fuel for tobacco curing can be very informal, with tier 2, tier 3 or tier 4 suppliers. For example, some farmers collect firewood themselves, or purchase it from firewood vendors, who may obtain it from various producers or intermediaries. Given the difficulties to change local market practices, achieving traceability and ensuring sustainability present challenges.

Forest risk commodity

Timber

Coverage

Supply chain

Primary barrier/challenge type

Limited availability of certified materials

Comment

A share of the pulp and paper products used by PMI are specialty products specific to the tobacco industry such as cellulose acetate tow and fine papers. The supply chain of those materials seem to be lagging behind in terms of sustainability. Only a limited amount of these products have some type of certification.

F9.2

(F9.2) Describe the main measures that would improve your organization's ability to manage forests-related risks.

Forest risk commodity

Timber

Coverage

Supply chain

Main measure

Reduced cost of certified materials

Comment

Even if forest certification is a voluntary process, the costs for small forest holders can be prohibitive. Expanding collaborative group certificates, according to credible standards such as FSC, will be essential to expand certification and increase the availability of certified materials.

F18. Signoff

F-FI

(F-FI) Use this field to provide any additional information or context that you feel is relevant to your organization's response. Please note that this field is optional and is not scored.

F18.1

(F18.1) Provide the following information for the person that has signed off (approved) your CDP forests response.



	Job Title	Corresponding job category
Row 1	Andre Calantzopoulos, Chief Executive Officer (CEO)	Chief Executive Officer (CEO)

Submit your response

In which language are you submitting your response?

English

Please confirm how your response should be handled by CDP

	Public or Non-Public Submission	I am submitting to
I am submitting my response	Public	Investors

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I have read and accept the applicable Terms